

Message Text

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TAGS: EFIN, BB

SUBJ: THE PRIME MINISTER'S BUDGET - GOOD ECONOMIC AND BETTER
POLITICS

BEGIN UNCLASSIFIED

1. SUMMARY. IN A MARATHON THREE AND A HALF HOUR TELEVISED
PARLIAMENTARY PRESENTATION ON APRIL 15, BARBADOS' PRIME
MINISTER AND MINISTER OF FINANCE H.M.G. ADAMS OUTLINED
HIS SEVEN-MONTH OLD GOVT'S NEW FINANCIAL AND BUDGETARY
POLICIES AND PROVED HIS AUDIENCE AN ECONOMIC TOUR D'HORIZON.
BILLING HIS ECONOMIC STRATEGY AS FOREMOST AN EMPLOYMENT
GENERATING ONE, ADAMS RAISED SOME EXISTING TAXES, LOWERED OR
ABOLISHED OTHERS, MOVED TOWARD RATIONALIZATION OF THE TAX
STRUCTURE, INCREASED EDUCATION ALLOWANCES AND ANNOUNCED
MEASURES DESIGNED TO CREATE JOBS AND RAISE THE DOMESTIC
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SAVINGS RATE. THE PIMIN'S DEFT PRESENTATION, HIS
AVOIDANCE OF PENALIZING THE POOR DIRECTLY WITH THE INCREASED
TAXATION AND THE OPPOSITION'S SERIOUS FUMBLING HAS
DONE MUCH TO INCREASE THE PRESTIGE OF A GOVT
THAT APPEARED TO BE DECLINING.

2. ADAMS' ECONOMIC OVERVIEW - "WE HAVE OURSELVES SOWN THE

SEEDS OF OUR PRESENT DISCONTENT". THE PRIMIN OPENED HIS APPEARANCE WITH A REVIEW OF THE COUNTRY'S POST-INDEPENDENCE ECONOMIC PERFORMANCE WHICH STRESSED THE DEGREE TO WHICH THE DECLINE OF THE SUGAR INDUSTRY HAS HURT THE ISLAND AND WANTED THAT UNLESS BARBADOS GUARDED ITS COMPETITIVENESS THE OUTLOOK WOULD BE BLEAK. THE PRIMIN NOTED THAT BECAUSE OF THE ISLAND'S DEPENDENCE ON ENCLAVE STYLE LIGHT INDUSTRY, THE PROFITABILITY OF THESE ENTERPRISES MUST BE ENSURED. HE CONCLUDED WITH THE OBSERVATION THAT AS A RESULT OF THE BLP VICTORY LAST SEPTEMBER THE ECONOMY HAD IMPROVED WITH INCREASED BUSINESS CONFIDENCE AND GDP, STAGNANT SINCE 1972, HAD RISEN ABOUT FIVE PERCENT IN 1976.

3. PLUSES AND MINUSES. ADAMS ANNOUNCED TWENTY-TWO STEPS TO INCREASE REVENUE VERSUS NINE MEASURES EITHER DECREASING GOVT INCOME OR UPping EXPENDITURES. THE FIRST CATEGORY INCLUDED A HIKE IN THE MARGINAL TAX RATE FROM 65 TO 70 PERCENT, A US 5-CENT RISE IN THE GASOLINE TAX, INCREASED TAXES ON IMPORTED CARS, HIGHER CONSUMPTION (EXCISE) TAXES, A NEW INSURANCE PREMIUM TAX, INCREASED HOTEL AND RESTAURANT TAXES, HIGHER AIRCRAFT LANDING FEES AND TAX WITHHOLDING ON INTEREST INCOME. ON THE OTHER SIDE OF THE LEDGER, SOME MINOR AND ARCHAIC TAXES WERE ERASED, AN INCOME TAX CREDIT INSTITUTED AND SCHOOL FEES TAX CREDITS RAISED ALONG WITH AN INCREASE IN EDUCATION ALLOWANCES. THE NET EFFECT ON THE GOVT'S FINANCES IS CLEARLY POSITIVE, A NECESSARY DEVELOPMENT IN VIEW OF THE LARGE AND CHRONIC (\$19.5 MILLION DEFICIT IN A \$100 MILLION BUDGET IN FY74/75) GOB BUDGET DEFICITS OF RECENT YEARS.

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4. JOB CREATION. DESCRIBING UNEMPLOYMENT AS THE MOST IMPORTANT SOCIAL AND ECONOMIC THREAT TO THE ISLAND'S FUTURE, THE PRIMIN OFFERED THE CONCEPT OF TAX CREDITS FOR JOB CREATION IN THE PRIVATE SECTOR. NOT SURPRISINGLY EDITORIAL REACTION TO THE SPEECH SINGLED OUT THE TAX CREDIT FOR JOBS PROPOSAL, DESCRIBING IT AS A GOOD IDEA BUT ONE WHICH SHOULD NOT BE EXPECTED TO "WORK MIRACLES". THE EDITORIAL OBSERVED THAT MANY LOCAL LIGHT INDUSTRIAL ESTABLISHMENTS ENJOYED A TAX HOLIDAY AND THEREFORE IT WOULD BE DIFFICULT TO OFFER ANY FURTHER TAX CONCESSIONS. IT ALSO NOTED THAT LABOR PRODUCTIVITY WAS A PRINCIPAL ELEMENT IN ATTRACTING AND HOLDING NEW FOREIGN INVESTMENT AND IF BARBADOS WAS NOT COMPETITIVE IN THAT REGARD, NO AMOUNT OF TAX CREDITS COULD EFFECTIVELY COMPENSATE.

5. THE DLP'S NON-REPLY. THE OPPOSITION DEMOCRATIC LABOR PARTY, OFFERED THE OPPORTUNITY TO REPLY AFTER THE PM'S PRESENTATION, DECLINED ON THE GROUNDS

IT WAS "TOO LATE" FOR TV VIEWERS TO REMAIN AWAKE AND ATTENTIVE. AS A COUNTER REQUEST, THE DLP PARLIAMENTARIANS PROPOSED TELEVISIONING THE APRIL 19 SESSION. THAT WAS REJECTED AND THE DLP DELEGATION WALKED OUT. ON APRIL 19 EX-PRIME MINISTER BARROW ATTEMPTED TO REPLY TO ADAMS' BUDGET SPEECH BUT WAS DECLARED OUT OF ORDER AND TOLD THAT THE BUDGET MATTER HAD BEEN COMPLETED ON THE 15TH. END UNCLASSIFIED

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6. BEGIN COMMENT: THE ADAMS BUDGET WAS NECESSARY TO BEGIN THE PROCESS OF BRINGING GOVT REVENUE AND EXPENDITURES INTO A DEGREE OF LONG-TERM BALANCE. BEYOND THAT -- AND PROBABLY MORE IMPORTANT -- THE BUDGET SEEKS TO LIMIT FOREIGN EXCHANGE OUTFLOWS, PRINCIPALLY BY RAISING AUTOMOBILE IMPORT DUTIES AND PLACING A TEMPORARY FREEZE ON THEIR IMPORT. HIGHER BUSINESS COSTS AS A RESULT OF LIMITED OFFICIAL USE

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THE GOB MEASURES WILL BE PASSED THROUGH AND THEREBY CONTRIBUTE TO INFLATION. MOST BARBADIANS HOWEVER, WILL NOT DIRECTLY BLAME THE GOVT FOR THE INCREASED INFLATION AND THAT FACT, PLUS THE PRIMIN'S AVOIDANCE OF INCREASING THE TAX BURDEN AT THE LOWER END OF THE INCOME SCLAE EARNS HIM HIGH POLITICAL MARKS FOR HIS PACKAGE. IN THIS REGARD THE OPPOSITION'S INEPT RESPONSE TO WHAT WAS A SUCCESSFUL ADAMS PLOY TO REDUCE THE VISIBILITY OF A BARROW-DLP PARLIAMENTARY REPLY GAINED ADAMS EVEN MORE POINTS WITH ELECTORATE. HERE, HOEEVER, THE PRIMIN MAY HAVE OVERPLAYED HIS HAND BY NOT ALLOWING A NON-TELEVISED REPLY APRIL 19 YESTERDAY, ALTHOUGH THE RULEBOOK DID SUPPORT HIS ACTION.

7. INCREASED TAXES AND DUTIES WILL DECREASE US EXPORTS TO BARBADOS OVER WHAT THEY WOULD HAVE BEEN IN THE ABSENCE OF THE NEW MEASURES. NONETHELESS BARBADIAN IMPORTS FROM US WILL CONTINUE TO RISE AS THE US CONTINUES TO GAIN A LARGER SHARE OF THIS MARKET. FAR MORE IMPORTANT THAN A MARGINAL LOSS IN OUR EXPORTS IS THE PROBABILITY THE ADAMS BUDGET WILL FORESTALL A FURTHER DETERIORATION OF BARBADOS' EXTERNAL ECONOMY. THE RESULTING INCREASED ECONOMIC CONFIDENCE MAY EVEN MODERATE SOMEWHAT THE GOB'S INCREASING PRESSURE ON US TO PROVIDE BILATERAL ECONOMIC ASSISTANCE. END COMMENT. END LIMITED OFFICIAL USE
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